



MONETARY POLICY COMMITTEE

COMMUNIQUÉ NO. 05/2020

Xai-Xai, 21 October 2020

Policy Rate remains unchanged at 10.25%

The Monetary Policy Committee (MPC) of the Banco de Moçambique has decided to keep its policy rate, MIMO rate, at 10.25%. The decision was sustained by an increase risks and uncertainties, in a context where the medium-term outlook points to a rise in prices in 2021, in a situation where economic activity is subdued, thus requiring the involvement of other economic policies.

The Committee has also decided to keep the Standing Deposit Facility (SDF) and the Standing Lending Facility (SLF) rates at 7.25% and 13.25%, respectively, as well as the Reserve Requirement ratio for liabilities in domestic and foreign currency at 11.50% and 34.50%, respectively.

Forecasts continue to point to an acceleration of inflation in the short and medium term.

Mozambique's annual inflation increased from 2.75% in August to 2.98% in September. For 2021, domestic prices are projected to increase as a result of the end of the government's administrative measures to contain prices, besides the impact of supply chocks. Nevertheless, given the weak demand for goods and services, inflation is expected to remain in single-digit, in line with the expectations of the economic agents surveyed in October 2020.

Prospects for a contraction in economic activity in 2020 and a slow recovery in 2021 remain.

Following an expected contraction in economic activity in 2020, due to the domestic impact of COVID-19, growth is expected to gradually pick up in 2021, driven by activities relating to development of gas projects in the Rovuma basin, in a context where the performance of export-oriented sectors may remain limited by the slow recovery of the world economy.

The domestic foreign exchange market continues to keep comfortable levels of foreign exchange. Over the year, the banking system purchased foreign exchange in domestic market amounting to USD 3,980 million and sold USD 3,928 million. In addition, gross international



reserves increased to a balance of USD 3.912 billion, equivalent to over 6 months of imports of goods and services. Nonetheless, Metical continues to depreciate, reflecting, among other aspects, the prevailing risks and uncertainties in the domestic economy.

Pressure on public finances is increasing. Given the increased financial needs to mitigate the negative impacts of COVID-19 and to cover expenses related to military instability in the northern and central regions of the country, the government recently submitted to the Parliament an amended budget that considers a higher deficit. In this context, it is expected an increasing recourse to internal deficit financing, taking into account that cooperation partners are also dealing with internal issues imposed by the pandemic. Since the last MPC session, domestic public debt, excluding loan and lease contracts and past due liabilities, increased from 162,424 million to 174,638 million meticaís.

For the short and medium term, the assessment of risks and uncertainties has worsened. Since the last MPC, the risks and uncertainties have increased, in particularly those related to the second wave of the outbreak of COVID-19 and the uncertainties related to the new presidential elections in the United States. At the domestic level, concerns over the spread of COVID-19 and its economic impact, the effect of the military instability intensification in the central and northern regions, as well as the probability of climatic shocks, have increased.

The mitigation of prevailing risks and promotion of a sustainable growth requires deepening structural reforms. Given the limits of the effects of monetary policy in the prevailing current and medium term medium economic outlook, the MPC considers that there is an urgent need for other economic policy decisions and deepening of structural reforms. These reforms should include, in addition to fiscal consolidation, the strengthening of institutions, in order to improve the business environment, attract investments and create jobs, thus ensuring the promotion of sustainable and inclusive economic growth.

The next MPC ordinary meeting is scheduled for December 16, 2020.

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Governor